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ABSTRACT

This report provides an overview of the State school aid distribution plan passed by the New Mexico legislature in 1974. The previous school finance plan, passed in 1969, and the problems school districts experienced under that plan are briefly described, followed by a discussion of the 1974 legislation. The new plan is a weighted-pupil formula based on the National Education Finance Project model. It provides distributional equity by defining school district "need" on a weighted-pupil basis, and it provides taxpayer equity by allocating State funds in inverse proportion to local revenue. The author suggests that the 1974 New Mexico plan meets the Serrano test of fiscal neutrality for operational funds but lacks a systematic provision for capital outlay and debt service. (Author/JG)

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SCHOOL FINANCE REFORM IN NEW MEXICO, 1974

AN OVERVIEW

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Background

The primary intent of the "State Equalization Guarantee" passed by the 1974 New Mexico Legislature was to equalize expenditures among the 88 school districts through a more sophisticated definition "need" and a major adjustment in the state-aid distribution. New Mexico statutes require that the Chief of Public School Finance, Department of Finance and Administration, hold annual budget hearings in each of the state's school districts; a process that tends to provide excellent feedback to the legislative and executive branches of state government from local school boards and administrators relative to the fiscal needs of districts. It was primarily through that process that cummulative inequities were highlighted and made visable.

The previous comprehensive school finance reform legislation was passed in 1969. That distributional method was a Johns-Morphet type of "staffing formula" containing thirteen staff categories of professional and non-professional personnel. Based upon a district's ADM, basic program "need" was determined by allocating a number of staff positions (e.g., one Principal per 400 ADM) and multiplying the allocation by an appropriation unit for each category (e.g., $13,085 for Principals in

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1973). After determining total salary costs, 25 percent of that amount was added for supportive costs and the state funded 70 percent of the basic program plus 100 percent of approved special education costs. The school districts were required to generate the remaining 30 percent of "need" through local tax sources. Unfortunately, the state imposed uniform assessment ratio of 33-1/3 percent of market value and limitation on tax rates combined with extremely low property wealth of school districts such that many districts could not generate the 30 percent local contribution to "need." Consequently many districts never attained 100 percent of "need" during the five years that the staffing formula was in operation while a few districts generated more than 100 percent of "need" or enjoyed lower property tax rates. Illustrative is the fact that following the first year of operation, an equalization appropriation was added to the distribution which guaranteed a minimum amount of local revenue per ADM and that distribution increased to approximately 14 percent of the basic distribution in four years; thereby recognizing that poor wealth districts could not meet the 30 percent local contribution to "need."

Context

It was against the above background and widespread criticism of the staffing formula from the Chief of Public School Finance, representatives from large and small school districts, teacher unions and legislators that the Governor formed an Advisory Committee on School Finance in the Spring of 1973. The Chief, a staff member of the executive branch, and the State Superintendent were named as Co-Chairmen of the Committee which

included representatives of categorical programs, full membership of the Legislative School Study Committee (L.S.S.C.), Parent Teacher Association representatives, union representatives, and School Administrator Association representatives.

The Advisory Committee met approximately once each month between July and December with the Chief playing the key leadership role. The Chief had previously hired an individual who was completing his doctoral dissertation at the University of New Mexico in which he adapted the National Education Finance Project's (NEFP) computer-based simulation model to New Mexico. The advocacy of the Chief and Key members of the Legislative School Study Committee for a student-needs based formula and the absence of alternative proposals except modification of the discredited existing formula, established the NEFP-type weighted pupil approach as the focus of debate.

The initial issues were: (1) how much additional money would be appropriated (the Governor had pledged a 12 percent increase) and (2) how should the money be distributed? The latter issue was readily resolved as to form by acceptance of the weighted pupil approach, leaving only the dimensions to be determined. Simulated distributions of Committee requested alternatives were provided by the Chief. Although the legality of taking credit of P.L. 874 funds as local wealth remained questionable, the Committee adopted that provision. However, given the Governor's recommended 12 percent increase, redistribution of state aid under the new formula indicated that 58 districts would gain revenue compared to existing funding levels and 30 districts would lose, thereby requiring 17

percent of the proposed appropriation for a "save-harmless" provision. The final meeting of the Governors Advisory Committee reviewed a proposal for a maximum increase of 12 percent for previous categorical programs (Kindergarten, Special Education, and Vocational) and a total appropriation increase of approximately 15.6 percent. That recommendation, although above the Governor's commitment, became the package to be introduced by the L.S.S.C. and included only nine districts in "save-harmless" after district sparsity was amended to it (primarily due to large receipts of P.L. 87' funds).

During the legislative session, school district sparsity was added and the legislature made it clear that local boards should give first priority to teacher salary increases. The dollars per unit was established at $616.50 in the Appropriations Bill as were maximum increases of 12 percent for Kindergarten, Special Education and Vocational programs and a maximum increase of 43 percent for Bilingual programs (in the second year of funding). State support increased from approximately 73 percent to approximately 83 percent of operational budgets.

Provisions of the Reform Legislation

The following weightings were established:

Program	Weight
*Kindergarten	1.1 (F.T.E.)
Grades 1-3	1.1 ADM
Grades 4-6	1.0 ADM
Grades 7-9	1.2 ADM
Grades 10-12	1.4 ADM

*subject to State Department of Education approval

Program	Weight
*Special Education	
A/B (itinerate/resource rooms)	20.0 (total units for approved program, not ADM)
C Mildly handicapped	1.9 ADM
D Severely handicapped	3.8 ADM
*Vocational	0.8 (F.T.E. add-on)
*Bilingual	0.5 (F.T.E. add-on)

Sparsity

Schools with ADM less than 200:

Elementary and Junior High: $\frac{200 - ADM}{200} \times 1.0 \times ADM = \text{units}$

Senior High: $\frac{200 - ADM}{200} \times 2.0 \times ADM = \text{units}$

Districts with ADM less than 4,000:

$$\frac{4000 - ADM}{4000} \times 0.15 \times ADM = \text{units}$$

Teacher Training and Experience

A weighted average of teacher training and experience is computed for each district utilizing a matrix of five training levels and five experience levels. The index is multiplied by the sum of program units (excluding special education units of approved private programs) to yield "adjusted" program units. No district's training and experience index shall be less than 0.95.

Calculation of Need

A district's "need" is determined by summing "adjusted" program units, approved private school special education units and sparsity units

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*subject to State Department of Education approval

and multiplying the total units by the unit appropriation of $616.50. However, due to the 12 percent increases limited on some programs, the Vocational program unit amount was established at $461 and the Special Education program unit amount was established at $587. The Bilingual program limitation did not necessitate a reduction in the unit funding level nor did the limitation on Kindergarten.

Calculation of the State Equalization Guarantee (90.5 percent of Appropriation)

1. Calculate "need" as described above utilizing the higher of the first 40 days ADM or the first 80 days ADM.
2. Calculate local and federal revenue received from:
   (a) 95 percent of a uniform levy of 8.925 mills on local assessed real property;
   (b) 95 percent of the district's share of motor vehicle license fees;
   (c) 95 percent of the district's share of forest reserve funds;
   (d) 95 percent of P.L. 874 funds; and
   (e) 95 percent of regular federal vocational funds (20 U.S.C. 1241-1391)
3. The amount of the state equalization guarantee is determined for each district by subtracting the sum of number 2 above from the "need" determined in number 1 above.

"Save-Harmless" (1.5 percent of Appropriation)

Any district that would receive less state revenue per ADM, except Kindergarten and Special Education, under the state equalization guarantee

than under the previous year formula, shall receive an allocation to guarantee the previous year funding level per ADM. However, the save-harmless amounts shall be reduced each succeeding year until no amounts shall be provided under this provision in 1980. A special provision was made to include one district into save-harmless due to the large grants received by that district from the Atomic Energy Commission.

Transportation (6 percent of Appropriation)

The state provides 100 percent of transportation costs.

Textbooks (1.6 percent of Appropriation)

Each school district and private school participates in a special textbook fund appropriated from Federal Mineral Leasing Funds. The allocation is made to public school districts and private schools based upon their elementary and secondary ADM as a percentage of the total public and private elementary and secondary ADM in the state. Credits are established with the State Textbook and Materials Depository and the participants draw state approved books and materials up to the amount of entitlement.

Supplementary Distributions (0.4 percent of Appropriation)

1. Out-of-State Tuition--100 percent state support for border students more economically educated in other states.
2. Emergency--need based; approved by the Chief.
3. Program Enrichment--provides for special education diagnostic services and other special-needs programs approved by the Superintendent.

4. Special Vocational--appropriation for shared-time programs for high school students attending post-secondary Area Vocational Schools as approved by the Superintendent.

Capital Outlay

No regular appropriation of state funds is made for capital expenditures. However, the legislature has appropriated approximately $3 million to be distributed on an emergency basis as recommended to the State School Board by an Advisory Council. Participatory limitations are established by law, e.g., extent that applicant district has used bonding capacity, etc. New Mexico's Constitution limits school district debt to 6 percent of the assessed value (33-1/3 percent of market value) of real property in the district.

Horizontal Equity

For the 1973-74 school year, school districts operated under the staffing formula and were required to contribute 30 percent of "need." Property values ranged from a high of $104,084 per ADM to a low of $2,197 per ADM; a property wealth ratio of 47.4 to 1.0. Both the wealthiest and poorest districts were levying 9.45 mills for operational purposes that year but the poorest district was not generating it's 30 percent of "need." The wealthiest district had no levy for debt service (satisfying capital outlay needs from the operational levy) while the poorest district was levying an additional 3.323 mills for that purpose.

Under the reform legislation no assistance is provided for capital outlay or debt service; however, the uniform levy of 8.925 mills will

provide 100 percent of need for all districts. Since the state charges-back 95 percent of the amount that the uniform levy would raise, the wealthiest district contributes significantly more (about 47 times more) toward it's "need" per ADM than does the poorest district. The effect of the charge-back is to allow more state resources to flow to the less wealthy districts and for the most wealthy districts to contribute more toward their "need." However, it should be pointed out that less than 5 percent of New Mexico's 88 school districts have property value in excess of $40,000 per ADM; and, over 75 percent of the students live in school districts with less than $10,000 of property value per ADM. The statewide district average was $11,142 in 1973-74.

Distributional equity is the central feature of the reform legislation although the uniform mill-rate charge-back provides substantive taxpayer equity. Coupled with the fact that local contribution to "need" represents only about 13 percent of the total current expense, the 5 percent non-equalized variance (state takes credit for 95 percent of 8.925 mills) amounts to less than 1 percent of current expenses for education. This funding provision has long been held to be one of the most equitable methods upon which to base state assistance--dating back to 1923 when Strayer and Haig first proposed it.

Legal Considerations

New Mexico had a Rodriquez-type suit filed which became moot upon the U.S. Supreme Court's 5 to 4 decision; and, like California, the New Mexico Constitution does provide for "equal protection" and therefore suggests that a Serrano-type suit (in State Court) may have been forthcoming.

Probably the most often quoted paraphrase attributed to Serrano is that the quality of a child's education should not be a function of the wealth of his parents and neighbors, but based upon the wealth of the state as-a-whole. Does New Mexico's reform legislation meet that test? In the opinion of this writer, yes. The reform legislation defines program need on a statewide basis, charges-back a uniform mill levy for operational purposes (the Montana Supreme Court recently ruled, as in other states, that a uniform levy for education is a state tax), and the state contributes to program-need inversely to local contribution to program-need. However, the state does not provide for systematic fiscal assistance to school districts for capital-outlay and debt-service. Therefore, the quality of educational facilities and equipment in the districts must rely upon the wealth of a child's parents and neighbors. (The 1975 Legislature has a proposal to provide systematic capital-outlay assistance as well as emergency assistance.)

There does remain two areas of potential litigation related to the New Mexico school finance reform. The first regards the provision that takes credit, as local contribution toward need, for 95 percent of P.L. 874 receipts.

Although covered by the Dole Amendment in 1973-74, some questions remain as to the method by which states may do so under the Educational Amendments of 1974 incorporated in P.L. 93-380. The Amendments require that the Office of Education establish guidelines to implement the provision, but those guidelines are yet to be approved. The court has ruled in favor of the State of New Mexico with regard to the taking of credit for P.L. 874 funds but the method must yet be settled.

Another area of potential litigation regards the provision that treats one school district differently than other districts. Testimony in the case has already been given and the Court's decision is expected shortly. The case was not tried on the "equal protection" clause of the State Constitution as expected but on the "supremacy doctrine" of a Federal action over actions of the state.

Summary

The primary intents of New Mexico's school finance reform legislation was to equalize expenditures among the 88 school districts through a more sophisticated definition of "need" and to ensure that all districts would have access to revenue necessary to meet 100 percent of "need." Both distributional and taxpayer equity are provided in the reform; distributional equity through defining "need" on a weighted-pupil bases and taxpayer equity through the uniform property levy and by providing state revenue inversely to local revenue. Local revenue is defined as 95 percent of (1) the receipts of a uniform levy of 8.925 mills, (2) P.L. 874 receipts, (3) districts share of motor vehicle license fees, (4) Forest Reserve funds, and (5) regular federal vocational funds.

It is suggested that the New Mexico reform meets the Serrano test of fiscal neutrality for operational funds but remains lacking in a systematic provision for capital-outlay and debt-service. It was noted that the 1975 Legislature is considering a popular Capital-Outlay Bill.